

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM**

**AUDITED FINANCIAL STATEMENTS  
With Supplemental Information**

**June 30, 2007**

**JUNKERMIER, CLARK, CAMPANELLA, STEVENS, P.C.  
Certified Public Accountants and Business Advisors**

# LEGISLATIVE AUDIT DIVISION

Scott A. Seecat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Angie Grove

October 2007

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana University System Workers' Compensation Program the fiscal year ended June 30, 2007.

The audit was conducted by Junkermier, Clark, Campanella, Stevens, PC under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seecat", written over a horizontal line.

Scott A. Seecat  
Legislative Auditor

07C-07

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
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## INDEPENDENT AUDITORS' REPORT

To the Committee  
Montana University System -  
Workers' Compensation Program  
Missoula, Montana

We have audited the accompanying financial statements of the Montana University System - Workers' Compensation Program (an enterprise fund of the State of Montana) as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Montana University System - Workers' Compensation Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Montana University System - (Workers' Compensation Program) and do not purport to, and do not, present fairly the financial position of the State of Montana as of June 30, 2007, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana University System - Workers' Compensation Program (an enterprise fund of the State of Montana) as of June 30, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2007, on our consideration of Montana University System - Workers' Compensation Program's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Montana University System - Workers' Compensation Program has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The claims development information on page 16 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

***Junkermier, Clark, Campanella, Stevens, P.C.***

Helena, Montana  
October 23, 2007

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
STATEMENT OF NET ASSETS  
JUNE 30, 2007**

<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 7,730,987	
Short-term investments	475,732	
Interest receivable	13,560	
Due from component units	<u>169,353</u>	
Total current assets		\$ 8,389,632
<b>Noncurrent Assets</b>		
Long-term investments	177,283	
Bond issuance costs(net of accumulated amortization of \$36,940)	<u>9,235</u>	
Total noncurrent assets		<u>186,518</u>
Total assets		<u>\$ 8,576,150</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Vouchers payable	\$ 28,686	
Other accrued expenses	25,275	
Due to other funds	34,031	
Accrued bond interest payable	1,539	
Current portion of revenue bonds payable	430,000	
Current portion of estimated claims liability	<u>632,042</u>	
Total current liabilities		\$ 1,151,573
<b>Noncurrent Liabilities</b>		
Estimated claims liability-net of current portion	<u>4,870,958</u>	
Total noncurrent liabilities		<u>4,870,958</u>
Total liabilities		<u>\$ 6,022,531</u>
<b>NET ASSETS</b>		
Unrestricted Net Assets		<u>\$ 2,553,619</u>

See the notes to financial statements.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2007**

**OPERATING REVENUES**

Premiums		\$ 4,047,323
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**OPERATING EXPENSES**

Claims administration	152,930	
Actuary fees	14,836	
Administrator expense	48,348	
Insurance and reinsurance expense	238,020	
Audit fees	9,500	
Dues	2,800	
Department of Labor assessment	33,828	
Bank Service Charges	106	
Office supplies, printing, postage	1,293	
Salaries, payroll taxes and benefits	7,662	
Telephone	205	
Miscellaneous expense	2,721	
Claims paid and claims expense	<u>2,101,356</u>	

Total operating expenses		<u>2,613,605</u>
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**OPERATING INCOME**

1,433,718

**NONOPERATING REVENUES (EXPENSES)**

Interest and investment income	344,267	
Amortization of bond issuance cost	(9,235)	
Bond interest expense	(22,296)	
Trustee fees	<u>(2,000)</u>	

Total nonoperating revenues (expenses)		<u>310,736</u>
--	--	----------------

**CHANGE IN NET ASSETS**

1,744,454

**NET ASSETS BEGINNING OF YEAR**

809,165

**NET ASSETS END OF YEAR**

\$ 2,553,619

See the notes to financial statements.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from premiums:	\$ 4,204,902
Claims paid and claims expense	(1,136,884)
Cash payments for insurance and reinsurance expense	(12,793)
Cash payments for administrative expenses	(208,487)
Cash payments for other operating expenses	<u>(4,325)</u>

Net cash provided by operating activities \$ 2,842,413

**CASH FLOWS (USED) FROM NONCAPITAL FINANCING ACTIVITIES**

Cash paid for interest	(23,800)
Cash paid for trustee fees	(2,000)
Principal paid on bonds	<u>(420,000)</u>

Net cash (used) by noncapital financing activities (445,800)

**CASH FLOWS (USED) FROM INVESTING ACTIVITIES**

Proceeds from sale of investments	1,305,000
Interest received	<u>343,921</u>

Net cash from investing activities 1,648,921

Net increase in cash 4,045,534

**CASH BEGINNING OF YEAR** 3,685,453

**CASH END OF YEAR** \$ 7,730,987

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income \$ 1,433,718

Adjustments to reconcile operating income to net cash provided by operating activities:

Decrease in due from component units	157,579
Decrease in prepaid expense	214,809
Increase in vouchers payable	28,686
Increase in other accrued expenses	9,118
Increase in due to other funds	34,031
Increase in estimated claims liability	<u>964,472</u>

Net cash provided by operating activities \$ 2,842,413

See the notes to financial statements.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
STATEMENT OF CASH FLOWS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2007**

**SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Increase in fair value of investments	<u>\$ 40,939</u>
Amortization of bond issuance costs	<u>\$ 9,235</u>

See the notes to financial statements.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization and Description of Program:***

The Montana University System - Workers' Compensation Program (the Program) was organized to provide self-insured workers' compensation coverage for employees of the Montana University System. The Montana University System Board of Regents elected to provide workers' compensation coverage under the Compensation Plan Number One (MCA 39-71-2101) as of July 1, 2003. Prior to that date, the Montana University System obtained its workers' compensation coverage through participation in the State Fund. Each member of the Program is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program.

In order to fund an initial reserve for self-insured claims, the Montana University System issued \$2,050,000 Series 2003 Workers' Compensation Program Revenue Bonds. The Program is repaying the bonds as they become due.

***Administration of Claim Payments:***

The Program has contracted with Missoula County Workers' Compensation Group Insurance Authority for third party administrator services through June 30, 2007. Missoula County Workers' Compensation Group Insurance Authority has contracted with Intermountain Claims, Inc. to provide claim administration services.

***Basis of Accounting:***

The Program has adopted the provisions of GASB Statement 10 (as amended by GASB Statement No. 30 and GASB Interpretation No. 4), under those provisions, the Program utilizes accounting principles applicable to public entity risk pools. The Program's financial statements are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Operating revenues and expenses generally arise from providing insurance coverage. All other revenues and expenses are classified as nonoperating. The Program has elected to apply the provisions of applicable pronouncements issued by the Financial Accounting Standards Board and the AICPA prior to November 30, 1989, except those that conflict with or contradict GASB pronouncements. Government entities have the option of whether or not to apply FASB pronouncements issued after that date to their proprietary activities. In accordance with GASB Statement No. 20, management has elected not to apply FASB pronouncements issued after November 30, 1989.

***Reporting Entity:***

The Program is considered a public entity risk pool and is reported as an enterprise fund of the State of Montana. In accordance with governmental accounting and financial reporting standards there are no component units to be included with the Montana University System-Workers Compensation Program as a reporting agency.

***Bad Debts:***

The Program considers all premium receivables to be collectible.

***Investments:***

State law permits investment of Program funds in direct obligations of the United States government; savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union insured by the FDIC, FSLIC, or NCUA located in the state; or a repurchase agreement as authorized in the State of Montana Laws.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Investments (Continued):***

The Program also authorized investing in the Short Term Investment Pool (STIP) which is administered by the State of Montana Board of Investments. The STIP portfolio includes asset-backed securities, banker's acceptances, certificates of deposit, corporate and government securities, repurchase agreements and variable-rate (floating-rate) instruments. Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, and credit cards. Variable-rate (floating-rate) securities pay a variable rate of interest until maturity. The variable-rate securities float with the 91 day treasury bill or LIBOR (London Interbank Offered Rate).

The Trust indenture for the Series 2003 Workers' Compensation Revenue Bonds requires that funds deposited into a bank-administered trust fund be invested in tax-exempt obligations.

Under the provisions of GASB Statement 31, investments have been reported at fair value.

Investments consist of municipal obligations carried at fair value, determined by quoted market prices. Increases or decreases in fair value are recognized in the current period as investment gains or losses. Short-term investments are those with a maturity date of less than one year from the financial statement date.

***Restricted Cash and Investments:***

The trust indenture for the Series 2003 Workers' Compensation Revenue Bonds requires that each month program revenues be set aside in a debt service account to be used for the payment of interest and principal. The amount of restricted investments at June 30, 2006 is \$653,015.

***Estimates:***

The preparation of the financial statements in conformity with generally accepted accounting principles requires the use of management's estimates. The major estimates are unpaid claim liabilities.

***Unpaid Claims Liabilities:***

The Program establishes claim loss reserves for unpaid claims liabilities based on actuarial estimates of the ultimate cost of claims (including future allocated claim adjustment expenses) that have been reported but not paid or settled and that have been incurred but not reported. The liability includes the unallocated claims adjustment expense. The liabilities are based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current reviews of claims information, experience with similar claims and other factors. Adjustments to estimated claims liabilities are charged or credited to expense in the periods in which they are made.

The Program is self-insured for workers' compensation claims to a maximum of \$500,000 per each occurrence. Losses in excess of \$500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1,000,000 above the self-insured amount of \$500,000. During the fiscal year ended June 30, 2007, the Program ceded \$238,020 in premiums to reinsurers.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Cash and Cash Equivalents:***

Cash and cash equivalents consist of cash in checking accounts, specific investments held on behalf of the Program and pooled accounts with the University of Montana. For purposes of the statement of cash flows, the Program considers all highly liquid debt instruments purchased with initial maturities of three months or less to be cash equivalents.

***Premium Revenue:***

Premium rates for all participating employees are based on rates established by the Montana University System Self-Funded Workers' Compensation Program Committee. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The Program considers anticipated investment income in determining if a premium deficiency exists.

***Due from Component Unit:***

These amounts represent premium receivable from a component unit (Montana University System) of the State of Montana.

***Amortization of Bond Issuance Costs:***

Loan origination costs, which consist principally of underwriter's discount, legal and printing costs associated with the Series 2003 Bonds, are amortized using the straight-line method over the life of the bonds.

**2. CASH AND INVESTMENTS**

Cash and cash equivalents at June 30, 2007, consist of the following:

Cash in bank	\$ 391,345
Money market funds	1,498,137
Cash in University of Montana investment pool	<u>5,841,504</u>
Totals	<u>\$ 7,730,986</u>

The following table presents the cost and the fair value of investments at June 30, 2007:

	<u>Cost</u>	<u>Fair Value</u>
Municipal obligations	<u>\$ 673,638</u>	<u>\$ 653,015</u>

Effective June 30, 2005, the Program implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 "Deposits and Investment Risk Disclosures". The investment risk disclosures are described in the following paragraphs.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk disclosure is accomplished by classifying debt investments as of June 30, 2007 by debt type and by credit ratings assigned by nationally recognized rating agencies such as Standard and Poors, Moody's Investors Service, and Fitch.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

**2. CASH AND INVESTMENTS (Continued)**

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 requires that a government entity disclose the amount invested in a separate issuer (except investments held in the U.S. government or investments guaranteed by the U.S. government) when that amount is at least 5% of total investments. As of June 30, 2007, the Program had the following investments that made up more than 5% of the total investments of \$653,015:

	<u>Fair Value</u>	<u>Percentage of Investments</u>
Wyoming Community Development Authority, Housing Revenue Bonds, Series 1 and 2, 2004	148,596	22.76%
Public Hospital District No. 1 of King County, Washington, Hospital Facilities Revenue and Refunding Bonds, Series 1998	100,138	15.33%
Illinois Municipal Electric Agency Power Supply Refunding Bonds	100,712	15.42%
Montana Facilities Financial Authority Health Care Facilities Revenue and Refunding Developmental Center Project Bonds	126,287	19.34%
Texas State Public Finance Authority, Texas Building and Procurement Revenue Bonds	177,282	27.15%

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of the outside party. Cash and money market funds are insured.

The Program's short-term and long-term investments are held by a bank-administered trust fund. These investments are uninsured, unregistered, and held by the trustee in the Program's name, therefore classified as category 2 investments.

Information regarding the collateralization and risk of funds held by the University of Montana is available in the University's comprehensive annual financial report. There is no regulatory oversight for the University's investment pool, and the pool does not have a credit quality rating. Participants' equity in the pool approximates the fair value of the underlying investments.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

**2. CASH AND INVESTMENTS (Continued)**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Program investment policies do not formally address interest rate risk. In accordance with GASB Statement No. 40, the Program has selected the effective duration method to disclose interest rate risk.

GASB Statement No. 40 defines duration as a measure of the debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds, prepayments, and variable-rate debt.

The Program's investments are categorized below to disclose credit and interest rate risk as of June 30, 2007. Credit risk reflects the bond quality rating, by investment type, as of June 30, 2007. If a bond investment type is unrated, the quality type is indicated by a NR (not rated). Interest rate risk is disclosed using effective duration. Both the credit ratings and duration have been calculated excluding cash equivalents.

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Municipal bonds	\$ 126,287	A	.89
Municipal bonds	148,596	AA	.42
Municipal bonds	<u>378,132</u>	AAA	.20
	<u>\$ 653,015</u>		

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

**2. CASH AND INVESTMENTS (Continued)**

The following is a calculation of the increase (decrease) in the fair value of investments for the fiscal year ended June 30, 2007:

Fair value at June 30, 2007	\$ 653,015
Add: Proceeds of investments sold in fiscal year 2007	1,305,000
Less: Fair value at June 30, 2006	<u>(1,954,260)</u>
Change in fair value of investments	<u>\$ 3,755</u>

**3. LONG-TERM DEBT**

On July 11, 2003, the Program issued \$2,050,000 of Series 2003 Workers' Compensation Program Revenue Bonds. The bonds were issued at par, bear interest of 2.8%, and are secured by premiums charged to participants within the Montana University System. Proceeds from the bonds were used to establish an initial reserve for self-insured claims.

Long-term debt as of June 30, 2007, consists of:

\$2,050,000 Series 2003 Workers' Compensation Program Revenue Bonds, 2.8% interest due semiannually, principal annually to May 2008; secured by premium revenue	\$ 430,000
Less current portion	<u>(430,000)</u>
	<u>\$ -</u>

During the period ended June 30, 2007, \$22,296 of interest expense was recognized.

Debt service requirements to maturity on the revenue bonds at June 30, 2007, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	<u>\$ 430,000</u>	<u>\$ 12,040</u>	<u>\$ 442,040</u>

**4. RELATED PARTIES**

Certain employees of the campuses of the university system provide services to the Program at no charge. The value of such services has not been determined.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

**5. UNPAID CLAIMS LIABILITIES**

As discussed in footnote 1, the Program establishes actuarial estimated unpaid claims liabilities. The estimated unpaid claims incurred but not reported and loss development liability have been adjusted to reflect the actuarial estimates of the ultimate cost of claims. The management of the Program has set the unpaid claims liability at the actuary's best estimate for 2007. The following represents changes in the aggregate unpaid claims liabilities, excluding unallocated claim adjustment expense, for the Authority for 2007:

Total present value of estimated unpaid claim losses at beginning of year	<u>\$ 4,538,528</u>
Changes in the estimated unpaid claim losses:	
Provision for insured events of the current year	2,600,000
Increase (decrease) in provision for insured events of prior years	<u>(498,644)</u>
Total incurred claims	<u>2,101,356</u>
Payments (including claims legal defense):	
Claims paid attributable to insured events of current year	367,913
Claims paid attributable to insured events of prior years	<u>768,971</u>
Total payments	<u>1,136,884</u>
Total present value of estimated unpaid claim losses at end of year	<u>\$ 5,503,000</u>

The estimated liability for workers' compensation claims as of June 30, 2007 consist of the following:

Estimated claims reported but unpaid	\$ 632,042
Estimated claims incurred but not reported and loss development	<u>4,870,958</u>
	<u>\$ 5,503,000</u>

**MONTANA UNIVERSITY SYSTEM - WORKERS' COMPENSATION PROGRAM  
CLAIMS DEVELOPMENT INFORMATION**

Fiscal and Policy Year Ended

	2004	2005	2006	2007
1. Required contribution and investment revenue				
Earned	\$ 2,425,230	\$3,047,625	\$3,708,977	\$ 4,391,590
Ceded	151,286	196,776	198,718	238,020
Net earned	<u>2,273,944</u>	<u>2,850,849</u>	<u>3,510,259</u>	<u>4,153,570</u>
2. Unallocated expenses	227,267	279,716	263,904	259,412
3. Estimated incurred claims and expenses, end of policy year				
Incurred	2,174,000	2,366,000	2,453,000	2,600,000
Ceded	-	-	-	-
Net incurred	<u>2,174,000</u>	<u>2,366,000</u>	<u>2,453,000</u>	<u>2,600,000</u>
4. Net paid (cumulative) as of:				
End of policy year	551,749	382,154	390,972	
One year later	1,019,751	1,001,996		
Two years later	1,123,504			
Three years later	1,147,508			
5. Reestimated ceded claims and expenses	-	-	-	-
6. Reestimated net incurred claims and expenses				
End of policy year	2,174,000	2,366,000	2,453,000	2,600,000
One year later	2,174,000	2,565,000	2,267,356	
Two years later	2,037,000	2,459,000		
Three years later	1,830,000			
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(344,000)	93,000	(185,644)	-

See the accompanying independent auditors' report on supplemental information



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Committee  
Montana University System - Workers' Compensation Program  
Missoula, Montana

We have audited the financial statements of Montana University System - Workers' Compensation Program, (an enterprise fund of the State of Montana) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montana University System - Workers' Compensation Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montana University System - Workers' Compensation Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Montana University System - Workers' Compensation Program's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Montana University System - Workers' Compensation Program's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Montana University System - Workers' Compensation Program's financial statements that is more than inconsequential will not be prevented or detected by the Montana University System - Workers' Compensation Program's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Montana University System - Workers' Compensation Program's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montana University System - Workers' Compensation Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Montana University System - Workers' Compensation Program in a separate letter dated October 23, 2007.

This report is intended solely for the information and use of the audit committee, management, others within the Montana University System - Workers' Compensation Program, and is not intended to be and should not be used by anyone other than these specified parties.

***Junkermier, Clark, Campanella, Stevens, P.C.***

Helena, Montana  
October 23, 2007



The University of  
**Montana**

Vice President, Administration and Finance  
The University of Montana  
Missoula, Montana 59812-3826

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October 26, 2007

Junkermier, Clark, Campanella, Stevens, P.C.  
Certified Public Accountants  
P.O. Box 1164  
Helena, Montana 59624

RE: Montana University System – Workers Compensation Program response

Dear Junkermier, Clark, Campanella, Stevens, P.C.

We have reviewed the draft audit report for the Montana University System – Workers Compensation Program. We are pleased that our Program meets accounting standards and that no recommendations for improvement were noted.

Sincerely,

Rosi C. Keller  
Associate Vice President  
The University of Montana-Missoula